

## The Role of Corporate Governance in Financial Communication: A Model Recommendation for The Emerging Market

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### Abstract

*Economic performance of countries is closely related to corporate governance systems of companies. For this reason, economic developments are affected by a positive or negative relationship according to the system's practices. The companies which have weak corporate governance principles can cause narrow operation in capital markets of countries. At the end of this situation, the country's economy is influenced adversely. If enterprises have a strong governance, the companies will provide more accurate investments with external and internal financial resources. Following this, it helps to achieve more efficient economic operation for both stakeholders and management staff. As a result of that, capital market operations occur in more comprehensive and more powerful manner and the country's economy is affected positively. In this context, article tells the importance of corporate governance in financial communication while mentioning the kinds of implementing in developing and developed countries and it investigates the increased effect on global competition.*

**Keywords:** *Investor relations, corporate governance, shareholders, financial communication*

**JEL classification:** G30, G34, M14, M10

### Introduction

Corporate Governance has been one of the most debated subjects in the world of business in recent years. At the core of this concept, companies are intended to be managed to provide profit for the shareholders and other stakeholders in the best possible way. In a narrow sense, corporate governance is the set of rules by governing the relations between company management and shareholders and stakeholders. In other words, it is a management philosophy that purposes to protect the rights of all stakeholders (stakeholders) directly or indirectly related to the activities of the company, including shareholders. Also it demonstrates the

responsibilities and obligations of the company management. Corporate governance emerged as a concept in the 1990s. and is accepted as management philosophy by the international organizations, governments, business world and academic circles (Aktan, 2013)

Corporate Governance examines the principles are related to the financial return for investors provide fund for the company. (Schleifer, 1997) In another identification, in Millstein is the first written book about corporate governance, this concept is told as profit making and sharing to stake holders and as considering the rights of employees, customers, funders. (Millstein). Bill Whitherell is the manager of OECD describes the corporate governance, as the rules and implementations to ensure transparency, fairness and responsibility in relations between company management, shareholders and funders. (Whitherell, 2002) Corporate Governance in broadest sense which can be defined in many different ways, is the regulation of the management of any organization that is created by people in order to achieve a purpose in modern life. In a narrower sense, it refers to all kinds of laws, regulations, codes and practices that allow an institution to attract human and financial capital, work effectively and thus create economic value for its partners in the long term while respecting the values of the society. (Tüsiad, 2002) Corporate governance encompasses a range of relationships between the management of a company, the board of directors, shareholders and other stakeholders. It is within a broader economic framework consisting of a set of elements that shape the activities of firms. The framework of corporate governance is also based on legal, regulatory and institutional factors. (OECD, 2004)

Corporate Governance plays a significant role in ensuring the security of investors and the community in particular. Companies are obliged to provide financial and non-financial information to both shareholders and other related parties. It is extremely important that the information provided to the interested parties is clear, easy to understand and accessible. For this reason, companies have to create and develop the conditions of corporate governance in order to obtain and maintain the trust of investors. The development of transparency and public disclosure is the most important point in the corporate governance approach as it concerns every segment of the economy. The sustainability of the companies intended by corporate governance can only be achieved through the adoption and establishment of the principle of transparency. Transparency can be made possible by corporate reporting at international standards and independent external audit. Corporate governance has been defined as a system for managing and controlling the enterprises in the first years. However, ten years later the definition of corporate governance has been expanded and the importance of accountability has been increased. The main objective of corporate governance formats a concept that will enable an effective management of the enterprise and to create a system that will facilitate the fulfillment of the needs of stakeholders.

Corporations have customary been planned as self-centered. Free market rules and profit-maximizing are very significant. However, corporate failures have attracted notice to issues of good governance, trust, ethics, and accountability. (Dima Jamali, 2008) Companies implement the corporate governance that is a combination of regulation to arouse interest financial and human capital. The financial and human capital is combined and performed efficiently in a corporate governance. It eternizes earnings in long-period for its shareholders and to target the attention or profit of stakeholders. It contains regulatory, legal, and proper willful private-sector. Corporation takes over a corporate governance is irresponsible for financial and human capital, performing efficiently, achieving its goals, providing legal tasks and social expectations.

Both corporate social responsibility and corporate governance are worthy of international issues. Their reform makes possible to determine the main problems and synergistic relation between corporate social responsibility and economic viability. Contemporary worries about corporate governance and corporate social responsibility have occurred from organizational failures and negative social consequences. (Deetz, 2007)

Corporate communication is important for corporate governance. It must be thought in organizational structures, rules, routines and effective procedures. Decision making process is facilitated by management function can be named corporate communication. Also, how institutions express themselves in highly competitive environments is very important. Besides the products they produce, their identity they reflect on society is very vital priority. After-effort communication of institutions must be consistent, balanced and

continuous. Institutions that achieve integrity in communication can also feel their approval and acceptance in society and continue their lives. Using of all communication fields that contribute corporate identity and corporate image is essential in a way to create synergy. (Akyürek, 2005) At the same time, the best way must be to examine the developed companies in which good corporate communication is provided. Public relations are the strategy between institutions. It should be think with press. Stakeholders can demand more information from the company frequently. In consequence, communication professionals within organizations interest in communication as being more than just PR. (Cornelissen, 2008)

## **The Role of Corporate Governance in the Public Company**

Corporate governance and financial public relations are essential area for the corporations that realize the importance of effective communication with stakeholders. This concept may protect interests of shareholders at the beginning of sale and the interests of all other groups that have relations with the company later directly or indirectly. The principles of corporate governance are described by the Corporate Governance Committee of Organization for Economic Cooperation and Development (OECD) in a broad meaning that it includes businesses are managed and controlled their relations between the administrative staff, the board of directors, shareholders. However, this concept emphasizes formal rules covering the above principles for good company management and informal rules contain and implement the modern management techniques. It can be called corporate culture. (Aktan, 2013)

The legal regulations of United State and United Kingdom have significant functions in the progress of corporate management; their lawful rules and statement establish the basis of international standards of corporate governance. Report of World Bank is named Corporate Governance Framework for Implementation is appropriate for developing countries that this report refers to approach these standards. The purpose of the OECD corporate governance to establish a basis for legal regulations and other regulatory studies on the corporate governance of member states. In 1998, the OECD established a working group to assess member states' views on corporate governance and to identify a number of non-binding principles.

According to the Corporate Governance Principles (OECD, 1998) described at the ministerial level at the OECD Council Meeting on 26-27 May 1999 are consist of six parts:

To provide efficiently and decisive corporate governance framework.

Key ownership functions and rights of a shareholder must be protected.

Equal and credible treatment between shareholders.

The importance of stakeholders in corporate governance.

Disclosure and transparency

Responsibilities of the management board.

The report which is called as 21st Century Governance Principles for U.S. Public Companies was arranged by The Corporate Governance Center tried to progress the negotiating of corporate management at Asian Pacific Economic Corporation Forum, 2003. These headlines of concepts were as follows;

The Activity of Leading: Major of top manager roles must be different. For example, chairman and chief executive office duties should not be the same.

Interaction: The management department must establish interrelationship between the external auditor, and the internal auditor. The connection is very important.

Board Purpose: The board of director's aim is to ensure the best relationship between shareholders and corporate. At the same time, these managers should consider the attention of other stakeholders.

Board Responsibility: The management board checks through business in right way, because it is responsible for the shareholders and all related parties. The CEO should be monitored by board if he or she

was outside country. Corporation's strategy and control system must be thought and observed together by board.

**Expertise:** The business executives must be well-educated in the relevant sectors such as industry, entrepreneurship, functional area, and governance expertise.

**To Meeting and to Share Information:** Company meetings should be organized periodically to share information and to make decisions. Staff and managers must be in a tight business relationship.

**Disclosure:** Disclosure must be made by the issuer and must subsequently be included in all monthly statements and other documentation mentioning finance charges. Transparency is important.

**Committee:** The independent managers must compose the compensation, the nomination, and audit committees of the board

**Internal Audit:** Internal audit is very significant for all publicly traded companies. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

**Independence:** Independence of the board's members and the audit committee should be necessary. They must not be related to the corporation's management

The efficient corporate governance needs some realities which can be thought as the corporate values and strategic goals must be decided by the organizational structure of the enterprise. One of them is the importance of the control functions ensured by internal and external audit. Second; conditions in the competence and responsibilities must be determined clearly in the enterprise. Third; proper observation is important for the executive managers. Fourth; transparency process of corporate governance. Fifth; deciding to support of the conditions for an effective corporate governance, Seventh; the responsibilities of the controller and audit authority. Maximum welfare of shareholders must be an essential rule for the business. Shareholders should participate in the strategic decisions and keep at least a part of the control of the company. Investment strategies of foreigners for the enterprise, financial globalization, the necessity of trade centralization is more observable for the company. It is concluded that the controlling ways, strategies and used rights are some of the governance methods of companies.

For companies, there are three real issues: Sustainability, corporate governance, and relationship with both supply chain and with their stakeholder communities. (Seifi, 2018) The corporate communication collects many different communication disciplines in an organization. The strategic corporate communication determines how to reach the objectives of the organization in the increasing global competition and also provides the essential of internal and external communications, planning, implementation and evaluation. It establishes a connection between the corporate mission and goals. Financial Public relations have an important role in strategic corporate communications, because it regulates the active communication with investors who are target group and stakeholders of corporation. There are some agency problems which indicate two important details:

The shareholder control is weak and acquisition of the assets by the managers is allowed, means that the company has confidence issue. The value of the company depends on the selection of the strategies and projects. If these decisions ensure benefit for the value of the company, the shareholder control will be stronger. Increasing the people who invest the company institutional by providing capital and credit which is one of the most important factors to develop the enterprise economically refer to go up the importance of corporate governance. As a result of that this development will decrease the financial risk of a company and turn investor's demands and beliefs into positive.

In some circumstances that investors may not be protected by regulations and control of the company, but as a result of that investments of the enterprise may decrease time to time. To solve these difficulties, external finance can be thought by enterprises. Especially this situation rarely can be occurred in underdeveloped and in developed countries. Investors will want to give money to buy stock of the company if the voting rights of the shareholders and the rights of the reincorporation and liquidation rights of the creditors are protected and supported by regulations and courts in a large meaning. Principles of good corporate governance must

be informed to the staff, managers and team leader. Because success will come as the result of working together. Each employee should adopt this principle and must do the best.

The company made successful investments and well-managed can catch the innovation process easily. Thus, it has been governed more profitable, its value increase and company can pay more dividend to shareholders. So corporate governance principles are implemented better for the future. Transparency, accountability, responsibility and fairness are generally unargued concepts to connect Investor Relations and the corporate communication. These concepts are necessary to present the company scope. The corporate communication strategy is developed in the context of the internal environment of the organization, but it requires external evaluation of the environment. The strategic communication between social stakeholders and top managers is established as a result of the strategic thinking process. This process helps to determine the changing situations by solving problem. The more the company attaches importance to transparency and integrity, the stronger communication is established with stakeholders.

One of the basic principles of corporate governance is to inform the public about disclosure and transparency of the corporation. Corporate management philosophy focuses on timely disclosure of the necessity and accurate financial aspects of the company. (Aktan, 2013) Financial public relations in strategic corporate communication are very important to execute the target of corporate. In doing so, the financial public relations practitioners depend on strategic corporate communication objectives should act in coordination with financial department and research and development unit. In this direction, it is necessary to secure analysis, to monitor financial media, to share the information both individual and institutional investors, to make financial forecasts, annual reports and to share the information of reports between individual and institutional investors and with stakeholders and target audience. Corporate communication tools used in financial public relations are annual report, quarterly report, annual meeting, interview call, media relations, media monitoring, proxy mails. Financial public relations employees are responsible for these activities are detailed as follows: (Seitel, 2004)

**Annual report:** This report is the information tool for the financial statement of the company. It can be printed or investigate as online. Annual report should include the following headings;

**Business Description:** It includes the company name, center address, general job description and a summary of work.

**Letter to Stakeholders:** A photographs of the company's management board are put in a letter and it also includes company's performance of the past year, and overview of the industry and the environment and future expectations of the corporate.

**Financial Review:** It includes a broader range of financial disclosures.

**Description and Analysis:** It includes a general discussion of the factors affecting the financial results that it is complementary. Because the financial analysis is observed by investors.

**The Management and Marketing Decision:** The annual report must explain the expansion of the company's products and expectations. Its vision and mission must be declared. The past and expected performance of enterprise must have determined and must be written. Report must be supported to explain by graphics, photos and drawings. These are the critical things to demonstrate the company's life.

**Quarterly Report:** The stakeholders are interested in quarterly or intermittent reports. The companies usually compare their reports quarterly and the same period in the last time.

**Annual Meeting:** Once a year, the companies have to meet with their stakeholders to discuss the financial statement and performance. This annual meeting, in particular, can be an involuntary conflict between managers and stakeholders when the company has a problem. However, the stakeholders are the owners of the company and deserve the answers. They can want to hear the whole explanations.

**Calling Calls:** Many companies make periodic phone calls with the various groups that are informed some decisions and the institution's earnings.

Media Relations and Media Monitoring: Investors are informed easily by media relations about financial news. Because, media investigates all companies and explains their statement.

Proxy Mailer: They may enter into controversies, which can rarely be resolved by voting of stakeholders. At this point, employees are informed quickly by their own mailing lists about investor relations.

Weak corporate governance and lack of transparency of corporate financial reporting have frequently been identified as some of the root causes financial crisis. Actually, the crisis indicates a bright message of the significant of good corporate governance and improved disclosure for individual corporations to install into international capital markets as well as for an economy to get through sustainable economic development. (Poh Ling Ho, 2008)

In general, the objectives of the organizations are stated like improving the corporate image within the financial community; ensuring understanding the employee's problems in the company; effecting legislators and regulators; creating pride between employees and members of community. As a result of these processes, there is an increase in public's interest to company and positive attitudes of management by taking over, an advance in the importance of the international financial markets. Thus all of these progress contain organizational values has led to the development of worldwide financial public relations and judges the congruency on satisfaction, commitment, union. (Boxx, 1991)

Financial public relations are also named as investment relations. The concept of public relations is interested in increasing the trust of shareholders in the organization and advancing the stock value of a company for individual investors, financial analysts and decreasing the cost of capital. Preparing strategies for management purposes communicating with the press, analyst meetings, tours and visits managing relations with communities should be the main working area of financial public relations (Jackson, 1995). In this context, public relations are the field that create communication links for bankers, consultants, stock market, private, national and international investors, shareholders.

Financial public relations need continuous, planned, pre-thought, sustainable corporate communication events. These events identify, establishes, maintains and encourages the long and short term relationship between the shareholders and the company. The Global Competitiveness of Public Company in Financial Communication emphasizes some methods. First of all, the most appropriate method to reach the target audience must be determined. The other important point; it shouldn't be forgotten that, despite globalization, all features of local target should be included in the research. Because global trends and local trends can be very different from each other that these must also be taken into account. Businesses try to collect financial capital for institution by selling stock, issuing bonds, getting credit. On the other hand, if investors don't must trust to company's management and job, they will not give capital. To reach the target group that is individual or corporate investor is possible by implementing a systematic financial public relation. Because the financial public relations have to concentrate to the target group is able to lend money to investments. The main purpose of this department is to establishment the framework for company's commercial operations. The professional work is very necessary to make investment evaluations about business. For this reason, financial public relations implementers must communicate with the local and global financial institutions.

For the global competitiveness, effective corporate governance structures must encourage companies by giving confidence to create value, through entrepreneurialism, new ideas, development and exploration, and must provide accountability and control systems commensurate with the risks involved. Meeting the information requirements of a modern investment community is also important in terms of accountability and capital withdrawal. (Council, 2007)

According to Baskin, Aranoff and Lattimore (1997), the general target audience in financial relations consists of the following, Individual investors, financial analysts, consultants, fund managers, brokers, corporate buyers, distributors and financial media. (Baskin, 1997) But Grunig and Hunt (1984) refer to the financial relations officers must interest in international investors, insurance companies, investment organizations, stock brokers, investment advisers, fund managers, commercial banks, private investors, shareholders and the financial media organizations. (Grunig, 1984) The use of the internet can bring the trust problem but it is very important now and will be more important in the future by communicating with the target audience.

Especially the effective use of the social media can establish faster and provide more strategic communication with stakeholders.

Especially extremely rapid developments after 1980 established the essential advances of communication technologies. Innovations in information and communication technologies largely eliminated barriers such as time, location reducing the costs of communication and transport to businesses, countries. In this way, financial operations in the financial markets has become feasible. (Baker, 1999)

Considering the effects of new economy on financial markets must be explained by economists the changes on micro and macroeconomic levels which are caused by information and communications technologies. Especially rapid change in internet technologies have impressed a lot of area such as trade, tourism, education, finance and health. On the other hand, such technologies have led to major transformation in financial services in the world and it also prepared the ground of emergence of a new method of providing financial service, which is called e-finance. (Saatçioğlu, 2010) This development has contributed positively to the global competition of companies in financial markets. The internet affects many areas of public relations but actually, it creates revolution in financial relations. In the 21st century, companies use the internet to win investors (Seitel, 2004) by their web pages that it provides with a broad perspective for the company. A well-designed website provides a service that investors can't meet elsewhere. The potential investors can learn what they want at any time and in any part of world. It is very useful for the global competitiveness in public company in financial communication.

## **Literature Review**

Ergincan (2011) investigated the role of Mobile Enterprise Management that is the general name of the process of the infrastructure. He explains the infrastructure ensures the requirements of corporate governance principles are fulfilled more quickly and effectively by internet and electronic communication applications and mobile application-based communication and information sharing, without physical limitations. Due to this process foresees more and more direct participation in the broad-based involvement of partners in company management and in the company's decision-making processes. Thus, the principles of OECD's are going to be implemented faster. It can be a model for other central storage organizations that registration application and the current information about the partners of the companies are hold in this organization. (Ergincan, 2011)

In E. Kara article, purpose of his investigation is to reveal the impacts of enterprise management on monetary performance relating to costs, budgets and investments. Companies which are detected on XKURY index between 2006 and 2012 years studied by using panel data analysis. As a conclusion, it revealed no meaningful relationship in this financial concepts which are return on equity ratio, return on assets ratio, return on sales ratio and net profit. (Kara, 2015)

The book is named its title as Corporate Governance, Principles, Policies and Practices was written by Bob Tricker is also used as a study book at universities. It tells about corporate governance indicates the importance and details of theories and philosophies of corporate governance. Reviewing the governance concepts, partnerships who are investors, companies, and directors, must be studied in the regulatory framework and must be revealed the model of corporate governance. (Tricker, 2015)

In Yuksel C. study; effective markets hypothesis is examined in terms of institutional and domestic foreign type. BIST-100 index value is not active at weak form test. There is not a random walk characteristic. Thus stock prices may not reflect from publicly disclosed information. (Yuksel, 2008)

This article that is written by Petersen, H., & Vredenburg H., tells the results from this research are clarified to work in equilibrium with the firm's managers and directors. Their social expectations and interests must be arranged for them. Strategic investments decided by management influence the value of the organization. (Petersen, 2009)

According to the study of Rani, N., Yadav, S. S., & Jain, P. K, merger and acquisitions have strategical importance for companies which are powerful in financial statement that they have high rank for corporate

governance score. If the firms are governed the best way, good performers, better financial ratios will come true. Especially, this is going to bring positive synergies after M&A activities. (Rani, 2009)

Cioffi, J. W. tells us that corporate governance regimes are implemented in the US and Germany was established to create as part of model in international finance capitalism. They present a double paradox. (Cioffi, 2006). This article explains the progress by searching governance processes in United states and Germany more than ten years. The changing economic conditions have strengthened the innovative state actors over the years. Modern capitalism played a very central and broad-based role in the process of governance by causing the substantial institutional change.

Assay of Gillan, S. L., & Starks, L. T. indicates the subject of corporate capital suppliers who are called as investors and their roles in monetary market where is exchanged of capital and credit. Especially, the privatization and development of pension fund systems have converted into the dominant players in financial market. Their economic effects of funds are increasing in large ground. Also foreign institutional investors are becoming a significant presence to international markets. In some countries, large block-holders, family groups, lending institutions are the other dominant players. (Gillan, 2000)

According to Ali El Mir, the aim of this paper is to reveal the gap among economic value added (EVA) and market values. Corporate governance strategy is evaluated by the management board characteristics, quality of auditor, ownership structure and compensations. As a result, article tries to establish the link between gap and governance mechanism. (El Mir, 2008)

This article was written by Robert M. Bushman, Abbie J. Smith tells us, financial reports are prepared by the relevant departments must be set available to institutional investors and regulators. The authors try to explain the features of accounting system and to research institutional environment of corporate. (Bushman, 2003)

In Robert LoBue article, the comparing German and U.S. corporate governance systems is concentrated by using the recent experiences of DaimlerChrysler AG and its chairman explained differences of investors relations communications experiences in the international business press. Because DaimlerChrysler had a visible role in the U.S. financial markets. It is important in a German-American direct foreign investment situation. According to Muzaffer Eroğlu, the corporate governance has important developments in recent years. The capital markets also have taken important steps in order to implement corporate governance in publicly traded companies and an obligatory rule were explained for them. (LoBue, 2004)

This article was written by Goranova, M., Abouk, R., Nystrom, P. C., & Soofi, E. S. tells that the increasing the shareholder status cause to rise the disputes about managerial accountability and responsibility. Because they can participate in company decisions and so they can induce to conflict of interest. Authors examine corporate governance in a broader sense. (Goranova, 2017)

## **Examples of Implementation on Corporate Governance and Communication in Developed and Developing Countries**

Recently the wide range of investigations are made by researchers about corporate governance. Unsuccess corporates may increase as a result of weak corporate management. Peripheral and global approaches have played a role in raising public awareness of how shareholders and companies should be managed are internationally experienced by financial problems such as Enron and WorldCom in the US, Parmalat in Italy, the Maxwell saga in the UK, Daewoo in Korea, Leisure net and Regal Bank in South Africa mandate transparency in managed companies. Weak corporate governance can be thought as an equity risk by investors. Because foreign investors direct their decisions according to economic growth of enterprises. As a result of that corporate governance principles are very important for developing countries. Therefore, successful companies enable the growth of related sectors which are getting economic power as time goes by effecting the development of the countries.

Analyzes in the last stages indicate that corporate governance effect the economic progress and the growth forecast. Reforms on corporate governance, must provide the growth of financial markets, to facilitate



external financing, the spread of ownership in enterprises, the increase of efficiency in the allocation of resources. (Rafeal La Porta, 2000) But there can be resistance to develop corporate governance practices. Oligopolistic power union within the markets and internal politics and strong groups of interests can try to protect their share of country assets. They don't try to create assets and increase business control. Reforms can be used for their strategic competitive actions. Because of that the waste and misuse of country resources can be take place. The development of corporate governance brings to mind the approach of Anglo-Saxon. In the world, economies and the convergence of markets are expected to converge in the period of expansion of economic integrations. A large part of the literature on corporate management focuses on the theory between agents and shareholders. In agency theory, all stakeholders are dealt with completely together. The aim of the corporate governance is to ensure that the enterprise works for the benefit of the investor by bringing together the investors and managers of the company. (Mayer, March 1997,) Thus, The United States and England have such a representative relationship. No shareholder has a large share in business as Roe (1994) stated, the shareholders are weak and the managers are strong position. According to shareholder approach, corporate governance is depended on relations between shareholders and lending banks and the business managers. It focuses on how to implement control in business and how to distribute return and risk between shareholders of enterprise. In countries outside the USA and England, especially in developing countries, ownership of share usually spreads to the base that it is an exception a large proportion of shares in enterprises can directly control managers.

Corporate investments are very important to develop the approach of corporate governance. Retirement system is a one of the corporate investments begins to progress with Şili between developing countries at first. Then many Latin American countries and other developing countries are interested in this system. As a conclusion the portfolio investments and institutional investors of retirement system begin to increase more and more as having a worldwide importance because corporate governance has become the driving force behind. The financial system is related to relative relations cannot meet the increasing financial needs of enterprises in many developing countries. The different of judiciary legal system in between countries determine the management system that it depends on people or stakeholders. If judiciary system is power, investors want to lend money to the business. However, these investors must be protected by legal system. Otherwise, the corporate governance and the external financing system get difficult. The shareholders of U.S. and England in Anglo-Sakson countries have significant impact on administrative decision-making process. Therefore, the laws aim to protect the rights of shareholders. Roe (1993), American Corporate Governance Model restrict the activities of banks, holds the rights of administrator in front of employee rights. Also this model blocks out the impact of the banks on the economy and supports the weight of the capital markets in the economy. But in Germany and Japan, the banks and enterprises have close relationship with each other and corporate governance is based on personal relationships between managers and shareholder systems are supported banking, business, tax and competition laws.

Razaee (2003) indicate that good corporate management strategy necessitates the relations of accountability between corporate participator and creates corporate performance. Management board and shareholders are responsible for each other and their relations must be accountable. (Waweru, 2013)

In South Africa foreign corporate investors turned back in 1990s and wanted to change structures of corporate managements and its governance principles in case of exchange for their infusion of capital. The good corporate governance is necessary and without clouds for developing countries according to King Committee Report (King II) which was issued in 2002 in South Africa. Main objective of the King Report is to make a progress at principles of corporate governance by supporting an integrated approach to catch interest of stakeholders in a broad sense. Good corporate governance is the way to arouse the interest of investor and to determine what to pay for a stock.

In Europe, better corporate governance provides better firm performance causes better governed firms. In a manner corresponding to studies in USA, there is no huge relations between corporate management and market values and the difference between these concepts in US firms is not significant. However Russian firms implement corporate governance and their firms value is affected. In the developing countries, firm's performance is related to corporate governance. This concept is very important for them. Also researches are made in Germany indicate that positive connection with firm's value and firm's corporate governance.

The rules of governance provide the equilibrium in the power-sharing relationship and price. So, there is a positive correlation.

The corporate behavior and performance are influenced much more stakeholders than shareholders and creditors. Because stakeholders have powerful ability. The corporate social responsibility and stake holder's concepts are studied and considered in European Union's policy. These concepts are emphasized strongly in the research of corporate governance traditions of Europe.

Destructions of enterprises in the World were discussed again and determined the significant of stakeholders. Indicating OECD principle, the best rules and directories were subjected and decided that efforts of stakeholder participation are underway to include much more participation in corporate governance structures in the view that this situation will be suitable for sustainable growth and development. (Ararat, 2006)

The last economic destruction in Asia, continued volatility of the Japanese stock markets, and unsuccessful enterprises of financial and industrial sectors revealed importance in corporate governance issues. Agency and institutional theory are used in the study to compare determining variable of corporate governance systems in Japanese firms. The strategies of corporate governance systems in the companies which are stakeholder and shareholder-centered in are discussed and analyzed. It is realized that when alterations of ownership structure and institutional strategies are going to direct the firms to concentrate on increasing value of shareholder even that the interests of stakeholders are more noticed. To solve the agency problem, the best corporate governance mechanisms must be implemented by ensuring the environmental selection mechanism. Thus, efficiency and transparency concepts are occurred to make power the firms in competition area instead of stability and business construction.

In international studies, corporate governance system of Italian has been classified within the so-called insider-dominated and refers to The Draghi Reform (1998) in which companies regulate arrangements of the financial markets and corporate governance rules in publicly traded companies. Also its aim to protect to strengthen investors and minority shareholders by arranging shareholder's agreement, minority shareholder's rights, internal controls, public bids, external auditor's agreement. The system of management board is not regulated.

Mainly, Italian corporate governance system and poor capital market orientation is correlated with each other relatively. Control of market for corporate and structures is restrained. On the contrary, in European, corporate governance system is not be affected by banks and institutional investors.

The main subject of corporate governance of Italy is the pressure of the block holder against minority shareholders. Paraphrasing Roe (1994), the keys of corporate governance are determined as weak managers, strong block holders and unprotected minority shareholders issued in Italian listed companies. (Melis, 2000) Telecom Italia share capital is composed of voting and non-voting shares, with the latter representing approximately one third of the share capital. The executive managers have the power to lead the enterprise by following in order to overtake the primary objective of revealing value for its shareholders. (Chris A. Mallin, 2006)

Internationalization and globalization are the factors in development of corporate governance. These developments are occurred by implementing innovations and providing improvements in financial system. It is necessary to begin to study from the management board power in the process of the German corporate governance system. The management board power is significant because it is responsible for the strategies of the company. They protect not only shareholder profits but also a wider range of interests. Stakeholder has a very important role in the managing board. In Germany, while the supervisory and management board are implementing the corporate governance board, their opinions are considered important. In German corporations, power is distributed such as that stakeholder groups can be active. All German corporations depend on compulsory co-determination, lenders and active players are significant of corporate governance. Power and active stakeholders, and employee and/or union representatives, and banks occur the German supervisory board. But more small and unaffected shareholders are not important in German supervisory boards. Because of that they can't be part of the coalition. (Hackethal, 2003)

This system is complementary and dependable nature indicate that stakeholder, insider control system and internal information must be thought instead of one-sided shareholder orientation, outsider control system, public information.

As a result of implementing these principles in the German stock exchange, the quality of investors is protected and the German capital markets are thought more developed and trustworthy. However capital markets are not important in corporate governance as it should be. Transparency and investor protection are essential concepts for outsider control system while making the strengthening of the role of the supervisory boards. This improvement does not cause pressure on management and on its strategies.

## **Practices in Turkey and the Recommendation of Model**

The first study based on OECD Principles of Corporate Governance in Turkey was initiated by Turkey Industrialists and Businessmen's Association (TUSIAD). The Corporate Governance Working Group, established under the umbrella of TUSIAD, prepared the Best Practice Code study in 2002 and published it in the same year. Members of the Working Group in 2003 Corporate Governance Association of Turkey (TKYD) performing the organizations also contribute to better recognition and understanding of corporate governance developments. In 2003, the Capital Markets Board (CMB) issued the Corporate Governance Principles and published it as a recommendation for publicly traded companies. Another important development in the quality of corporate governance in Turkey has also been encouraging the creation of ISE Corporate Governance Index. The ISE Board of Directors decided to begin calculating the Corporate Governance Index to be included in the Corporate Governance Principles in 2005 and the calculation of this index was started on 31.08.2007

In Turkey, the corporate governance approach has begun to be considered as a factor in public and in other private sector companies (Turkish capital markets). Because in Turkey and in other countries, economic scandal, bankruptcy and other economic problems can be happened. Therefore, strength and durable companies and external and internal credit resources are needed. Because of that, the implementation studies of The Corporate Governance Principles are required and also it must be considered. It is clear that the majority of Turkey's companies are family companies and they are managed in a conservative and inflexible way. Institutionalization must be implemented to solve this problem.

For the determination of the Corporate Governance Principles in Turkey, various circles of research and studies were initiated. These particular studies are continued in an intensive manner by academic circles. The Corporate Governance Working Group of TUSIAD published the good practices of corporate governance code tells the structure of management board is depend on 4 principles (transparency, accountability, equitable, responsibility) and how to structure the enterprise and its organizational independence. The Banks Association of Turkey continued their work under the umbrella of "Basel Banking Supervision Committee" (Committee) prepare "Corporate Governance in Banks" report was published in September 1999. In this report, OECD principles and the important of the corporate governance were explained for the banks. Committee believed that effective corporate governance practices provides easiness to implement corporate governance rules.

Capital Market Board also made important studies about corporate governance. CMB 's" Guide to Corporate Governance Principles "(Principles), must be investigated closely. It is important in terms of public companies. Principles, especially in publicly held companies are the target. The Joint stock companies and the other public and private sector organization implement the principles. Especially the main area of the Turkish corporate governance system is interested in business groups. The community of industrial and financial companies which are business groups are established in the legal form can be called as holding company. Koc Holding and Cukurova Holding are two of the oldest and largest business groups in Turkey. These groups have started their business activities since 1920s.

The stronger shareholder protection is the essential of the corporate governance provided by less interested in ownership. The return of investments increase positively regards to rights ensured the shares of company

protect investors from potential expropriation by insiders. Shareholders use their powers by voting for directors while they are concentrating to shareholder rights in legal environment.

The voting mechanism is supported by the rights are linked to shares defined by the Turkish Commercial Code and by the Capital Market Law. There are significant weaknesses in the implementation of these regulations, especially in less developed countries, even if they have made arrangements. In investigation is covering countries such as Turkey, Brazil, Poland, South Africa, India made by the World Bank, it was found out that the courts were in financial distress, the level of motivation was low, there were uncertainties about how to enforce the laws, and even corruption. Therefore, even if legal regulations have been adopted to adopt ideal corporate governance principles such as OECD principles, there are problems in their implementation. The slow work of the courts in Turkey, the late result of lawsuit, judicial independence and guarantee of judges to be insignificant and not yet fully emerged as a full mentioned subject. In one study, Turkey and 46 countries were examined, the powerful corporate governance system managers preferred to the auto financing options to finance the investments with lower expected return rate but managers in the weak corporate governance system prefer to new stock issue. This may be related to the fact that the investment project is not in a strong position to search for the rights of equity investors in countries where corporate management systems are weak, even if it yields a loss. They can exploit the fact that the investment project decisions are unsuccessful and have no power to seek the rights of the investors who financed the project. Another effect of weak corporate governance systems is associated with the economic performance of countries. Countries with weak corporate governance systems tend to be narrowed by capital markets. It is generally accepted that there is a positive connection between the development of capital markets and economic growth. The weak corporate management systems lead to develop in a narrow way of capital markets. So that, as a result of this, if low economic growth is realized, the capital market growth and economic growth performance of the country can be increased in the long term by strengthening the corporate governance system. Creating a strong corporate management system, in developing countries where savings have not yet reached the desired level, it is important to allocate financial resources for the enterprises that will be used most effectively.

The deviation of cash-flow shares is the most significant findings of empirical studies on properties and control mechanism associated with lower firm value. For example, the rights of minority shareholders in Turkey are regulated by laws and rules. The legal framework enforced of these laws can be summarized by reports of total market value under the control of individual families. The majority of these firms managed and controlled by families who organize the companies and determine the strategies and implement the decisions. If bad governance discourages small shareholders to supply the funds that companies need really, which steps should be taken to improve corporate governance in Turkey?

The long-term combining process of world financial markets will cause to develop corporate governance time to time. Studies show overtime that to protect of investors are provided in a legal path by the aid of stronger accounting standards. If transparency and other legal implements increase, institutional investors can take the business action easily. The last investigations explain reforms and innovations are achievable and productive as independence of the legal system of countries. (Grugler, 2003)

In Turkey, existing applications in enterprise located in the CMB and TCC are supported by relevant provisions of the corporate governance though there are deficiencies at various stage of company. The developed states of the world economy put emphasis that "CORPORATE GOVERNANCE" is the compulsory for people who want to invest and incorporated company. Investors or their organization and formations are not created at the desired level. It is important that their numbers must increase like OECD countries. It is the compulsory that the legal protection must be in the sense of shareholder rights have not the necessary arrangements and the development of corporate governance in Turkey. It is the most important requirement in terms of the settlement.

Provisions relating to the transfer of shares should be restricted. If their shareholders attend in the management process, they should have rights of knowledge acquisition. Not only members of board but also business partnership in the organization should be banned from competing and to do business with the

company. Employees of participation in the management and control of an arrangement in Turkey is not yet available.

In terms of auditing, The New Turkish Commerce Code aims to establish clear, transparent and reliable public disclosure. The essential objective is to provide confidence for all financial results in an auditing system. In this manner, the new code is going to initiate corporate governance in the company and increase public information rules. Communication paths which are used in reaching the public must be adapted to present day, the kinds of information should be in the on-line environment. An independent internal control and corporate governance unit should be created. The financial status of the company must be real. Manipulations should be prevented. The control rules by legislators are required. The purpose of the corporate governance principles is to provide the undertake of incorporated companies. These rules are developing time to time. They are acted by countries as laws. Corporate Governance is the management style that company carrying all the parties within the system at the same time describes how to adapt the conflicts and principles of management on the equilibrium floor. Corporate Governance of the company has prepared to increase the control and pressure of investors on the company by informing the public, shareholders and the board of directors by choosing the selections.

## **Conclusion**

Corporate governance became a current issue to solve company scandals and financial crises. It was a compulsory. It also introduced modern management principles. Global financial crises as a result of the integration of financial markets can affect many countries and many companies. The spread of shares or the proliferation of creditors reveals the need for supervision and enforce corporate governance. This need is increasing in times of crisis. In a nutshell, corporate management foresees a more resilient corporate structure against financial crises. Globalization is as a result of the movement of international capital movements require more confidence and stability to corporate investments. Nowadays investors interest in both in their own countries and instruments in every corner of the world. The impacts of this situation on emerging markets are increasing of productivity, investment, income and deepening of financial markets and increasing export and international capital inflows. Emerging markets due to international economic dependence, international funding resources and portfolio investments are vulnerable to fluctuations in the markets. Therefore, companies have to make arrangements in their corporate management to attract capital and investments. This situation leads to the importance of corporate governance.

The corporate governance principles contain significant changes in the management understanding of companies. Corporate governance anticipates honesty and transparency principles in a systematic structure. This systematic structure, which companies may be exposed in the future must be designed to identify problems and risks in advance. Company management is getting important because capital and investments are increasingly globalized. If the companies want to catch economic integration, they should be implement universal principles in their financial structures. Corporate governance principles are one of a kind rules. Accepting the corporate governance principles of company never is enough. Believing these principles is more important and implementing is the compulsory.

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